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TRUSTS & ESTATES

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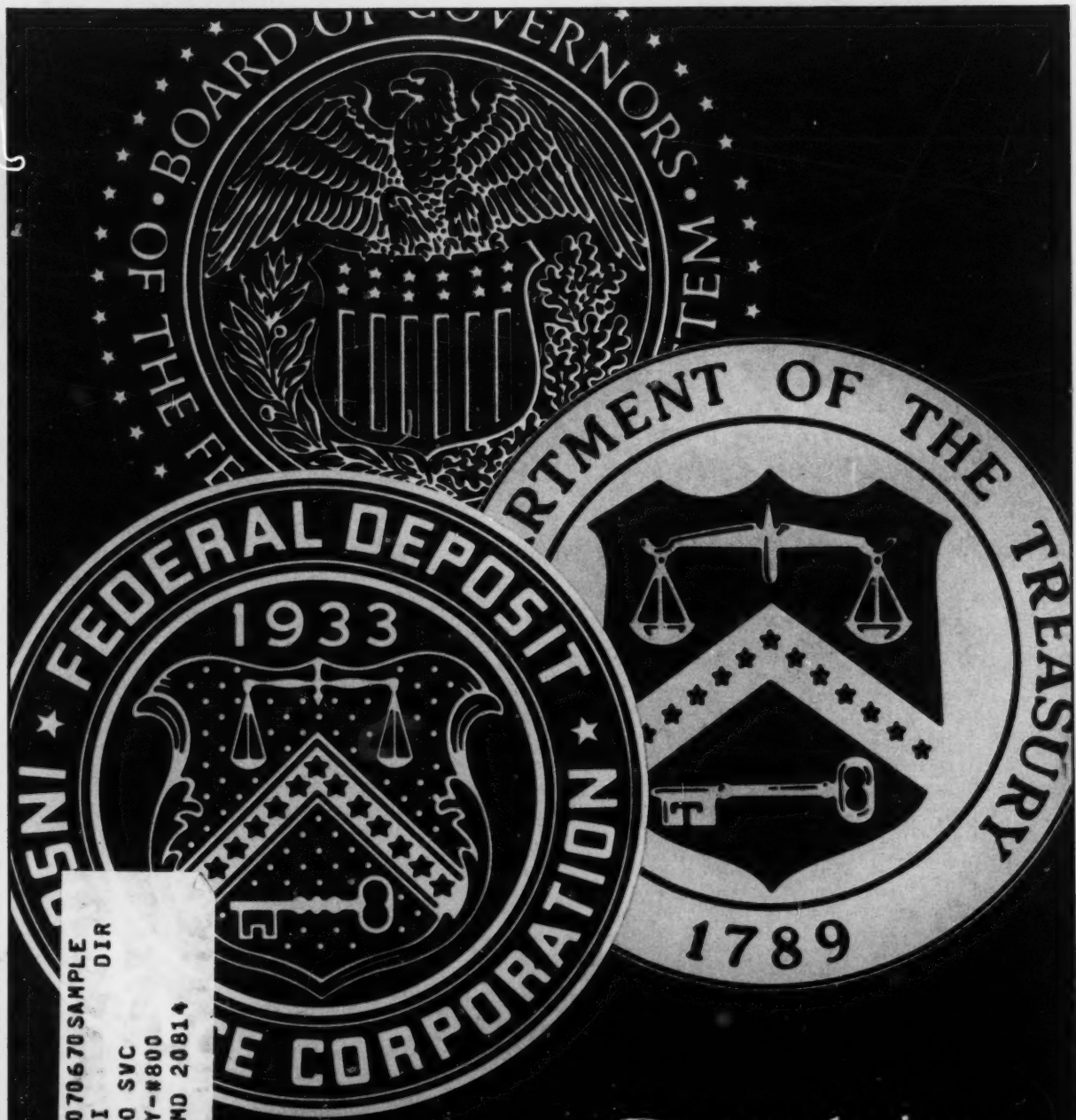

Deregulation: Is It Time for a Slowdown?

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TRUSTS & ESTATES.

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COVER

Trust officers appear to be divided on whether or not deregulation of financial institutions should continue full speed ahead, or whether it now is time to slow down the pace of deregulation and assimilate changes that already have occurred. In the meantime, government agencies are involved in a turf fight concerning which agency should have control over which aspects of the banking industry. Artwork by Cathy Meunier, asst. art director CCI.

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Trust Officers Divided Over Deregulation

Survey reveals differing attitudes towards deregulation and other issues

By **PHILIP BOLTON**
Editor

The states are "political and social laboratories" where major reforms have been initiated throughout the course of this nation's history, Citibank's Walter Wriston said last year in a speech that he delivered at the American Bankers Association annual convention.

Alluding to the elimination of slavery, he cited the decision by states to take matters into their own hands. "Remember John Brown and bleeding Kansas?" he asked the thousands of attendees. And he reminded them that reforms concerning women's suffrage, child labor laws, pure food laws, and unemployment insurance all originated at the state level.

The son of a college president, Wriston was making an academic argument against the "moratorium" that has been thrown over the deregulation financial institutions have been undergoing in recent years. Many of these changes have been initiated at the state level.

Recently the Comptroller of the Currency announced that the moratorium on the chartering of "non-bank banks" has been extended until March. Meanwhile, several bills have been introduced in the Senate that would limit bank acquisitions and bank powers. There also is a bill that would facilitate interstate banking.

In view of the many issues still to be acted upon by Congress, we asked a sampling of the trust officers among our readers in a survey if they felt that deregulation was proceeding fast enough, or if they favored a moratorium until the effects of changes brought about by legislation passed in 1980 and 1982 had been played out.

While Wriston claimed that "those who argue for a moratorium fail to read our country's history correctly," the results of our poll indicate that the sentiment among the bankers who read TRUSTS & ESTATES tended the other way. Of 170 respondents to our questionnaire, 99 replied that they felt deregulation had proceeded rapidly enough and that a respite was in order. Fifty-nine favored continued deregulation, and 12 failed to answer this question.

"I'm not interested in faster deregulation. We need to adapt and expand services in an organized progression," is a typical example of the comments accompanying the votes of those favoring a temporary moratorium.

On the other hand, those who wanted continued deregulation at a faster clip expressed, like Wriston, a profound faith in the power of the market to cope with deregulation.

"Government interference should be greatly decreased in all areas of business," wrote a respondent with this view. "The marketplace provides its own regulation in all areas of business. The marketplace provides its own regulation by rewarding those capable of meeting the competition. Over-regulation placed an unnecessary burden on companies in the same manner as excessive taxation."

In comparison to a survey that we made in 1982, the comments concerning 1983 were far more positive, primarily because of the economic recovery and the performance of the stock market but also because of an increasing sense that competition from the likes of Merrill Lynch and Shearson/American Express was not overpowering. "Shearson and Merrill Lynch experience much more employee turnover than most trust departments. I believe our clients want a continuity given by the same faces," wrote a respondent.

Many of the trust officers said they felt that by expanding their offerings of financial services and by maintaining their community ties they were less threatened by the financial supermarkets.

Other questions posed by the survey included: whether the respondents felt that banks should be forced to maintain higher ratios of capital vis-á-vis outstanding loans; whether banks should be forced to release data concerning their problem loans; if their trust department had undergone a name change or if one was contemplated; and if their departments offered discount brokerage. There also was a question concerning the working relationship of trust officers and attorneys.

Eighty-three respondents said that they favored higher ratios of capital vis-à-vis outstanding loans, while 71 answered that they did not. Sixteen respondents did not answer this question.

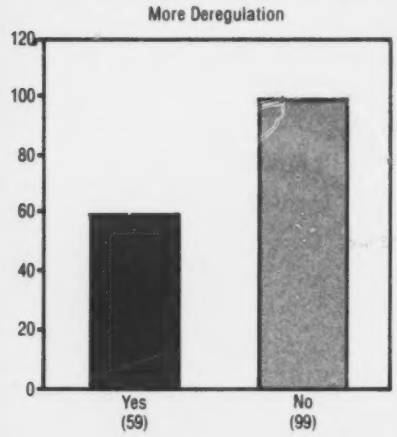
Those supporting increasing capital ratios cited the instability of the banking system, especially in view of the many outstanding international loans. Although most said that the international debt crisis had only a peripheral effect on their departments, a few confessed to selling off their stock in the large New York banks.

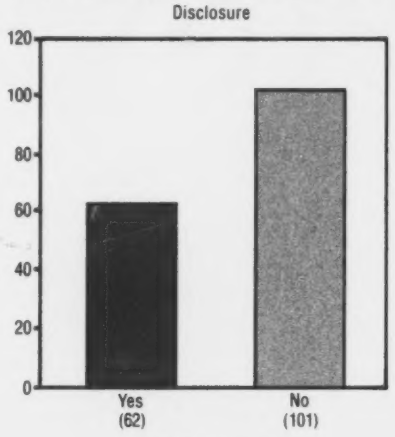
Those opposed to raising the capital ratios echoed Wriston's contention that,

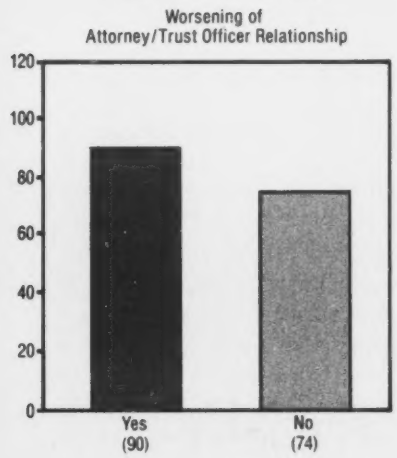
"The cold reality is that no amount of capital can save a business, particularly the business of banking if it does not earn money. Bankers have learned over many years of experience that it is management, a management team capable of earning money and maintaining the confidence of customers and investors, that pays off bank loans."

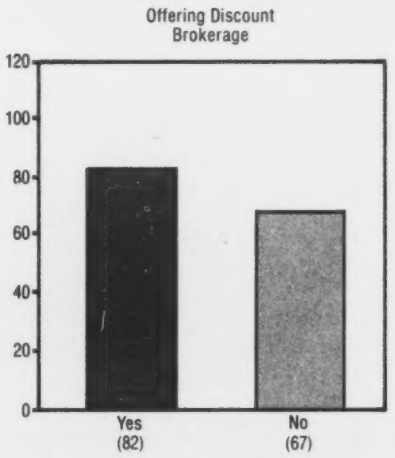
"This would be unfair," wrote a respondent from Dubuque, Iowa, concerning the same question, "particularly when you consider the smaller banks, due to the fact that there is such a wide variation in requirements between the money center banks and the other lending institutions, such as savings and loans and credit unions. With larger ratios of capital, it would be hard to maintain profitability. I believe that the savings and loans and the credit unions and money center banks should be required to maintain ratios more in keeping with what is required of the smaller banks."

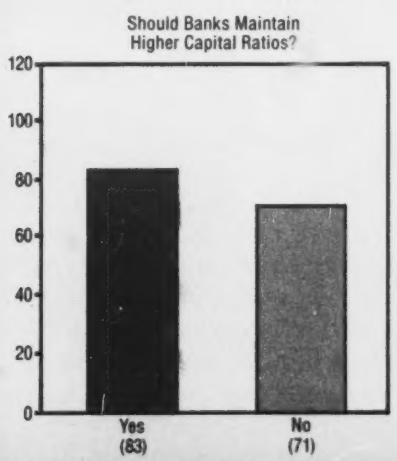
While many of the trust officers thought that their banks should be forced to have higher ratios of capital to outstanding loans, the majority of our respondents did not want banks to be forced to release data concerning their "problem loans" despite the fact that regulations now require more extensive disclosure.

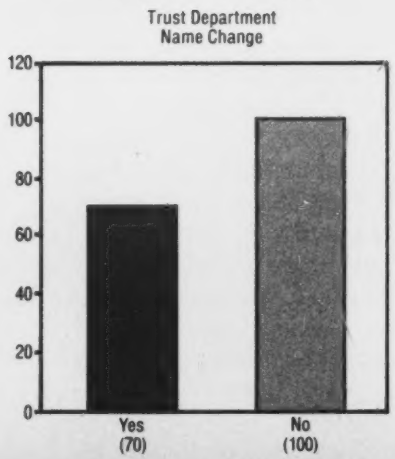












Sixty-two respondents said that they favored disclosure, and 101 were opposed to it. Seven failed to answer this question.

Perhaps most indicative of the ferment in many trust departments is the number of respondents who said that their departments were now offering discount brokerage. Eighty-two of our trust officers said they were offering this service. Of these, 19 asserted that they were offering it not only to retain customers, but to garner a profit as well. Sixty-seven said that their departments did not offer the service, and 21 said they did but by other means, such as through the commercial side of their bank.

Another indication that trust departments are undergoing transition was the number of respondents who said they were changing the names of their departments. Seventy said that their department had either changed its name or a name change was being considered. One hundred responded that their department had either not considered changing its name or had considered the possibility but decided against it.

Another question that we asked dealt with the relationship between attorneys and trust officers. Changes in the laws, the increased sophistication of customers, reduced fees, and increased competition between the two groups have in some quarters led to a certain chill in this relationship, according to the respondents. Ninety said that they have noticed this chilling effect of the times, 74 said that they did not, and six failed to answer the question.

Those who thought that the chill exists attributed it to varying factors but stressed the growing number of attorneys. "Some attorneys are anti-bank and with the growing number of attorneys (one for every 300 people in my county) the problem is becoming acute," is the way one trust officer put it. On the other hand, others disagreed with this so-called trend. "The more we all go after the business, the more we all seem to find" is a response that reflects this attitude.

But the intensity of the conflict is readily apparent in the remarks of the trust officer who wrote that "We need to nail the bastards to the wall. They are the competition and not the other trust departments." For the moment, his is the last word, but we suspect that others will also be heard before long. □